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White House Aims to Cut Deficit With TARP Cash

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WASHINGTON -- The Obama administration, under pressure to show it is serious about tackling the budget deficit, is seizing on an unusual target to showcase fiscal responsibility: the $700 billion financial rescue.

The administration wants to keep some of the unspent funds available for emergencies, but is considering setting aside a chunk for debt reduction, according to people familiar with the matter. It is also expected to lower the projected long-term cost of the program -- the amount it expects to lose -- to as little as $200 billion from $341 billion estimated in August.

The idea is still a matter of debate within the administration and it is unclear how much impact it would have on the nation's mounting deficit levels. Still, the potential move illustrates how the Obama administration is trying to find any way it can to bring down the deficit, which is turning into a political as well as an economic liability.

The White House is in the early stages of considering what bigger moves it might make for next year's budget. The Office of Management and Budget has asked all cabinet agencies, except defense and veterans affairs, to prepare two budget proposals for fiscal 2011, which begins Oct 1, 2010. One would freeze spending at current levels. The other would cut spending by 5%.

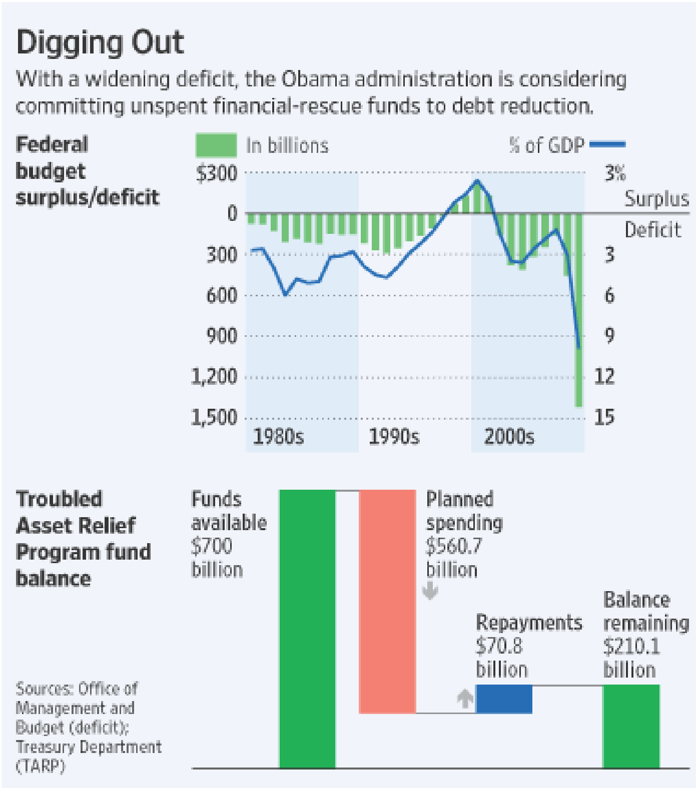
OMB is also reviewing a host of tax changes. The President's Economic Recovery Advisory Board will submit tax-policy options by Dec. 5, including simplifying the tax code and revamping the corporate tax code.

White House Chief of Staff Rahm Emanuel is pressing for substantial spending cuts to go with any tax increases to try to avoid the "tax and spend" label that has bedeviled Democrats, according to administration and congressional officials.

The administration is constrained in tackling the mounting deficit, since raising taxes or slashing spending could stunt economic growth. Administration officials say the Obama economic team is especially concerned that rapid deficit reduction could hurt the economy.

On the $700 billion Troubled Asset Relief Program, the administration is considering a change that may appear to improve the fiscal situation. Agreeing not to spend a certain amount of TARP money will enable the White House, in its budget projections, to assume less money out the door and, therefore, less debt issued. The move would also reduce the deficit by an unknown amount since a certain level of spending and borrowing is already factored into estimated future deficits.

The Treasury Department said about $210 billion in TARP funds remains unspent, including about $70 billion



returned from financial institutions. A further $50 billion is expected to be repaid in the next 12 to 18 months.

Budget experts said committing some TARP funds toward debt reduction could help calm concerns about the size and intent of the program. "I don't necessarily want them to pull back in a huge way, because there's a lot of uncertainty, but right now what we've got could turn into a $700 billion slush fund" for Congress, said Douglas Elliott, a fellow with the Brookings Institution, a liberal think tank.

The move could buy the Treasury Department time before it hits the so-called debt ceiling, which limits the amount of money the U.S. can borrow. Already, some members of Congress have said they won't approve an increase in the $12.1 trillion debt cap unless efforts to reduce the deficit are included.

Senate Budget Committee Chairman Kent Conrad, the North Dakota Democrat who is proposing a bipartisan commission, along with Sen. Judd Gregg (R., N.H.), to examine taxes, said he won't vote for raising the debt limit unless Congress and the administration start talking about cutting spending and increasing taxes.

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